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Back to first principles

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BACK TO FIRST  
PRINCIPLES

CHARLES E. MITCHELL

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Box 107

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# BACK TO FIRST PRINCIPLES

An Address at a Luncheon of the  
BOSTON CHAMBER OF COMMERCE  
COPLEY PLAZA HOTEL  
THURSDAY NOON  
JANUARY 5, 1922

BY  
CHARLES E. MITCHELL  
*President*  
THE NATIONAL CITY BANK  
*of New York*  
THE NATIONAL CITY COMPANY

## BACK TO FIRST PRINCIPLES

QUITE out of sentiment I have held a membership in this Chamber for many years. It was a membership inherited from my father who, over a long business career in this city, was a believer in and devoted to the aims of the Chamber. I need not say, then, that an invitation to meet and to speak to my fellow members at this threshold-of-the-year luncheon has had an irresistible appeal. For a period of 25 years, my returns to Boston have been but visits of a few hours at best, and I regret to say that they have been separated by substantial intervals of time. I know, of course, that during this period, the same character and degree of change in standards of living and complication of social and commercial existence have occurred here as elsewhere in our country. Yet by reason, I presume, of my long absence I cannot think of Boston except as I associate a composite picture of the simple, sound, rock-ribbed principles underlying the social and commercial life in the center of which I was a boy.

They were principles handed on from Plymouth Rock, melted down and tried again and again in the crucible of Massachusetts' industrial and political struggles, found to be pure, and as such employed to measure what was worthy and what was unworthy. They were the principles which imbued the men who wrote the Constitution of the United States. They were the principles that radiated through the pioneers

of New England to the far corners of our nation, and made it wax strong. Only when economically and politically this country has deserted those principles have we slipped into serious trouble. Now then, coming back here to Boston to review some of the problems that confront us with 1922, I find myself, thinking of some of those simple, first principles—and wondering if we cannot make progress fastest by individually and collectively getting back to them.

#### Labor.

Business today is suffering from industrial disorganization resulting from the fact that the level of prices and wages has been disrupted. How can there be activity in commerce, how can there be prosperity—a prosperity where labor is freely employed and is receiving a return sufficient for the necessities and sane pleasures of life and something more for the savings account—so long as there is the wide divergence that exists today in the degree of deflation in various sections of this country and in various trades? The product of the farmer has been deflated in price to the pre-war level. On that basis the value of his crop this year is calculated by the Department of Agriculture at eight billions of dollars less than it was two years ago. This means that on the basis of war prices for the manufactured commodities he would buy, the purchasing power of that greatest of purchasing classes is reduced by the sum of eight billions of dollars, or more than one-half. If the prices of other commodities had kept pace with the decline of the farmer's products, his buying power would, of course, be undiminished; he would be able to buy the same quantity of goods, and his purchases would give employment to the same number of wage-earners as before.

Furthermore, since production and consumption would be approximately the same, everybody would be practically as well off as before, although measured in money the total volume of the trade would be less.

Now, there is a maxim that represents I should say a first principle, which says that "the laborer is worthy of his hire." This must in the last analysis have some relation to a stabilized standard of values. The laborer is entitled to a return for his service that will permit his employer to manufacture in competition and receive an adequate return on his invested capital and a fair profit to boot. Wherever labor in any industry demands a compensation that violates this principle, labor is retarding a return to prosperity.

When I was a boy living in this community, Lynn was the one great shoe center of the United States, and I understand it has developed extensively in recent years. I was amazed to learn, however, from a member of this Chamber who sat in my office quite recently that there were but two shoe factories in Lynn now in operation, and that those two factories were manufacturing specialties; that the reason the rest were shut down was because labor was still demanding practically the equivalent of the war-time wage, a wage nearly fifty per cent in excess of the wages which I knew were being paid and gladly accepted in that shoe center which has been built up far more recently—St. Louis. Can and will the Western farmer buy shoes that are produced at the war-time wage when his own product is being sold at pre-war time prices? Obviously, no! And there can be no commercial rehabilitation, no sound prosperity, while such discrepancies, such disorganization exist.

The farmer's products may be,—they probably are,—selling at lower prices than they should, for naturally in the absence of a normal buying power in the idle or partly idle laborer in Lynn and elsewhere, there cannot be a demand for the agricultural products of the Western farmer that will give to his prices a normal level. Assuredly the Western farmer cannot and will not buy Lynn-made shoes until there is some approximation of real value between the bushel of wheat he offers and the shoe that is offered from Lynn.

"The laborer is worthy of his hire," but that worth will be measured not only by what the wage will buy but by the competition coming from within this country and as well from those European countries where labor, and efficient labor, mark you, is working today for less in many cases, measured by the things which the wage will purchase, than in pre-war days. If we would have prosperity, the laborer must adapt himself to the changed conditions just as the manufacturer and the merchant find they themselves must. He must remember that hard work and a free giving of his full strength are essential to the competition of the day; and that, and that only, will bring him a return in the desired things of life. These are the proper measure of wage—not the actual amount of cash that comes in the pay envelope.

#### Currency.

The war unsettled society. A spirit of unrest and of criticism of the existing order is an after-war disease. There seems to be a tendency, more marked in recent months perhaps than before, to put a big question-mark on everything that has been done and everything that has been learned in the past. Now, of course, inquiry is not a bad thing. It is certainly not

to be suppressed; but the greater part of what the world knows about practical affairs has been slowly and painfully learned and has been verified over and over again by experience. We ought not have to learn all the lessons of experience over again. It is trite to say that "history repeats itself." It is not completely so, but the old fallacies and heresies that have vexed society throughout all history are hatched again in every time of disturbance and distress. One of them, and from my viewpoint, one of the most important of them, is the paper money delusion—the idea that governments can make times good, by printing plenty of money.

I would not ordinarily fear this delusion in a country that had become so thoroughly wedded to the gold standard, but when I see a fiat money bill introduced in our Congress having serious consideration; and when I see two such great leaders of industry as Mr. Ford and Mr. Edison, backing time-dissipated fiat money theories, I realize there must be a popular bent that way that calls for the corrective thought of such men as constitute this Chamber. There is an air of hocus-pocus about the free operation of government money printing presses that ought to put men on their guard, because we all realize that governments are not creators of wealth, but have to be supported by taxation. There is an inherent absurdity in the idea that a government that has to take up a collection to maintain its own existence may carry on great industrial works, as Mr. Ford would have it, by simply printing money.

When Europe is weltering in a flood of printed money, and all the evils that have been described in past history are being again described in the daily foreign news columns, it seems absurd that anybody in



America should be seriously discussing a revival of the paper money heresy. The chief obstacle to the rehabilitation of trade today is the fact that the world has lost the services of the gold standard. The doctrine of fiat money, of irredeemable paper currency, has been discredited by every test that has been laid upon it. It is destructive of stability in the commercial world; it converts legitimate business into speculation, and the wage earner is always the chief victim.

Let us as sound business men frown upon the organizations that are forming for the purpose of spreading the fiat money idea. Let us dispel the illusion that prices and wages have fallen because there is a scarcity of money. Let us stamp upon the thought that it is primarily money that creates a demand for things. Let us bring our people back to the fundamental principle that business consists primarily of an exchange of goods and services, which creates a demand each for each other, and that nothing but a balanced state of trade makes a demand all around and gives prosperity.

#### Railroads.

And then there is that other perennial problem—the railroads—a problem which today, in a certain sense, is more acute than through the recent acute years. New England, perhaps beyond any other section of this country, must of necessity have the greatest interest in that problem.

It is a first principle that the railroads are arteries of commerce and without them national commerce cannot exist. It was an understanding of that first principle that stimulated the railroad pioneer who forced out West and South from this very center those arteries that brought development throughout the land. It was initially capital from this very center

that made possible that development, and in spite of all the vicissitudes through which political meddlers have dragged the railroads, I presume it is safe to say that proportionately there is more of the wealth of New England invested today in securities of the nation's railroads than of any other section.

What is constituting the present crisis? It seems to me that if we can again get back to first principles and remember the old maxim that "no man can serve two masters," we will understand it most clearly.

The Railroad Labor Board is determining for the railroads the wages that they shall pay their employees, and the conditions under which they shall,—and I should properly add,—they shall not work. Regardless of the trend of commodity prices, this is bound to determine in a large measure the cost of railroad operation, for the wage bill is the big bill. On the other hand, the Interstate Commerce Commission is telling the railroads what their charges shall be for freight and passenger transportation between every point in the country, and added to this in many cases local state commissions are fixing the intra-state rates for them, often, it may be said, in a manner inconsistent with the Interstate Commerce Commission's rulings. One group thus determines the cost, another group determines the revenue. Conceivably and actually in many cases, this process results in the crushing of the patient between the millstones. In most cases it results in an inability to properly maintain service, and extend that service to the full requirement of commerce,—in most cases, I say, because the determination as to where and how the individual shall invest his savings has not yet been regulated by federal investment commissions, and there is still some individual liberty of action in that

regard. Through the worn rut of investment habit, the savings of New England may still be finding it a little difficult to get away from the railroads, but as sure as the present condition continues, the habit will be broken.

But again, if the inflated wage bill and a fair return be covered in railroad rates by the Interstate Commerce Commission, that is bound to occur which in many instances already has occurred—the rates will be more than the traffic can bear, resulting first,—in a drying up of traffic which means a curtailment of commerce; and in the second phase, in a redistribution of industrial centers. New England is not a section of great natural advantages. The great industrial development that has occurred in this and other New England states has been in spite of some natural disadvantages, and, in my opinion, rather by reason of the character of its people, their efficiency, their willingness to work long and hard, their fundamental frugality, their inherited habits of thrift, of simple living. These have made it possible to bring over our railroads raw materials from the South, Southwest and Far West, fabricate them into useful and necessary commodities, and ship them, not only to every section of this land, but to foreign lands as well.

The service of the railroads, the long haul at a low rate, has been the necessary handmaiden to New England's industrial development. Without it the character of New England must change. If the rates to and from New England points are greater than the traffic will bear, how can great industrial New England continue to live? This, then, beyond all sections, is that which must awaken to an understanding of the real dangers in the present situation. And from this

great commercial body I trust there will go out an appeal for railroad relief, based on the platform of first and fundamental principles.

#### Canada and Cuba.

We hear a great deal of talk these days about the foreign situation, and as that subject is mentioned our minds as a rule revert immediately to Europe. American business men and economists have been there by the score this past year, and as a rule we find them returning with this one thought uppermost in their minds. It is that the Allied Nations who are demanding payment of severe indemnities are practicing folly in asking the impossible since they will not permit a free flow of goods from Germany through which the economic stability of that country may be established and the means created for producing the wealth with which the indemnity is to be paid. But are we not ourselves practicing similar and perhaps greater folly with our own immediate foreign neighbors? I speak especially of Canada and Cuba.

Canada has long since been our best customer, last year taking our exports in the amount of about a billion dollars—products which we are well fitted to produce and must find a market for. Canada, on the other hand, has shipped us principally grain, timber and paper products to an amount of about seven hundred million dollars, leaving a balance in our favor of about three hundred million dollars last year. Her timber and paper products have filled a vacuum in our supply enabling us to conserve the limited timber tracts of our own country. Her grains have come to us for milling, the delivery from the mills constituting, as I choose to view it, a part of our exports to England and

to Europe, while furnishing additional traffic to our railroads.

We have taken steps during the year to kill that most desirable trade by placing a tariff of thirty-five cents per bushel, for instance, upon Canadian wheat. By so doing we are antagonizing these neighbors of the North to the point where they are seriously discussing a retaliatory tariff that doubtless would in the ultimate result in their milling their own grain and exporting their flour in competition with our exportable supply, as well as inviting English and European goods to enter their boundaries, not on even competition with us, but under a freedom from tariff that would practically put our goods out of competition. By this process we shall have succeeded in antagonizing a good neighbor, we shall have fostered an export competition that may in time be exceedingly serious, and we shall have taken away from American industry a huge market that must obviously reduce the industrial earning power, the rewards of which would constitute a buying power for the very agricultural products that we are thus attempting through the tariff to protect.

But as to Cuba the situation is even worse. Morally and geographically, and in accord with the policy which from the time of the Spanish War until recent months has never been challenged, the United States is morally obligated to so conduct itself that the prosperity of Cuba may be guaranteed just as adequately as we are able to achieve and guarantee prosperity for ourselves. I presume that in the minds of the majority of the people of this country the thought carries that we are maintaining toward Cuba a policy consistent with that character of national justice of which we are prone

to be so proud. The unknowing would resent the implication that we are not honest in our relations with this small neighbor and even the coldest blooded of us, working upon the first principle that "honesty is the best policy," would scarce believe that our relations could be tinged with anything but honesty. But what are the facts?

We long ago arranged by virtue of a tariff agreement, that Cuba give to the products of the United States an import differential that practically precludes competition on the island with goods coming from other countries. Having accomplished this, we turn about and lay an import tariff here of \$1.60 per hundred pounds upon that greatest of products that Cuba exports—sugar—and this for the purpose of protecting the Eastern beet sugar industry, not an infant industry, for it is of an age of many decades, but an industry that in its development east of the Mississippi has shown itself as so uneconomic that it cannot possibly live in anything approaching a free market.

Congress dare not go before the public of the United States with an offer of a bounty to the corn grower, and much less to the beet sugar grower, but by virtue of our ability through our greater might and the position in which we find ourselves, it has shown itself to be willing to put upon the rack our little brother Cuba, to the end that to the cost of producing sugar in Cuba may be added a burden equivalent to and probably in excess of that cost in order that an uneconomic industry of the United States may continue to grow. The consumer of sugar is thus called upon to pay not only over  $1\frac{1}{2}$ c extra for every pound of Cuban sugar he buys, but the same on every pound

of beet sugar as well. The American consumer is obviously not the beneficiary.

What is more, at the very moment that we are here discussing this matter, the powerful beet sugar lobby at Washington, with which the so-called agricultural bloc is said to be in sympathy, is threatening that unless the Cuban Congress will agree to pass measures curtailing the production of Cuban sugars for the coming year it will insist in the halls of our Congress in Washington upon an increase of the tariff against Cuban sugars from \$1.60 to \$2.00 per hundred pounds.

We who pride ourselves upon justice, are crucifying the little Island of Cuba because it is within our power so to do. I do not think it adds or detracts from the argument that probably seventy per cent of the sugar producing properties in Cuba are American owned; the effects upon the Cuban Government and upon the Cuban people are the same regardless of this fact. We are placing Cuba where it seems to me she must in the ultimate, plead either for annexation, which would take away the burden of her American trade taxes, or for a complete national freedom, which would enable her to take foreign imports on the same basis that she would take American imports, in which case there is every indication that through reciprocal trade relations established with England and Europe she would be able to export to their markets probably close to a third of her annual sugar crop.

If further pressed by those who would find bounties for their industries through the medium of the American tariff, I am convinced there is no alternative in Cuba but revolt against destruction of her commerce that is likely to end in armed intervention, the effect

of which, from the standpoint of the American government, I think is something none of us would care to look forward to.

Our exports of manufactured products to Cuba amount to approximately four hundred million dollars per annum, no small part of which consists of cotton and leather and other goods manufactured within the bounds of New England. Shall we then through the operation of the tariff in a manner that is unfair, dishonest and absolutely immoral, permit a condition that will cut off that great market for the American manufacturer?

I realize that what I am saying in regard to Canada and in regard to Cuba, insofar as it pertains to the tariff, is being said in the very stronghold of the Protectionist Party, but I cannot believe, Protectionist though you may be, that you will countenance a continuance of this misuse of the tariff, to the end that this country will lose not only the friendship of neighbors and their advantageous trade but its deserved reputation for fair dealing and for justice. It is a first principle, and the time has come when in these instances of Canada and Cuba we should get back to it.

#### International Exchange.

The past two years have developed a greater interest in international exchange than has ever existed in world history. No merchant can think of export trade without calculating international exchange. The world has speculated in it. Now, as we find ourselves thwarted by it in our foreign trade, we have our ears wide open for correctives—ways and means by which the disparity of the mediums of exchange in foreign

countries may be brought again into fixed relations one with the other, with currency systems built again upon a common foundation of value.

Currencies and international exchanges must be stabilized. This is the universal demand of our merchants, and inability to satisfy it is a crime laid upon the banking fraternity. Currency and international exchange difficulties are as a rash upon the skin, evidencing some disorder in the vital organs of the body. It is folly to apply lotions and salves to cure that skin eruption. Cure the disorders in the vital organs and the eruption of the skin will disappear. Find the way to bring about economies and balancing of budgets in foreign countries; find the way to stabilize their industries and develop their trade; find the way to bring about a friendly understanding between nations that will result in an orderly interchange of products; find the way to put business into government and take government out of business, and foreign currency and international exchange difficulties will in one way and another be dissipated.

It is not a banking problem at all; it is the problem of getting the people of this and every other country, individually and collectively, back to first principles.

#### Conclusion.

What shall we say of the year 1922?

The worst is certainly behind us. That is encouraging. But ahead there will still be some discouragement. Liquidation of inventory in many businesses which has been effective in 1921 and has resulted in the thawing out of frozen credits, has gone about as far as it can, and these businesses must now look for their rehabilitation to profits from operation. This opera-

tion, however, will be under stronger competitive conditions than have existed for some years, and doubtless not a few will fall in the race. It will be a year of reorganization of business, of mergers and consolidations, where those who are worthy of leading will absorb the weak, where disastrous overhead expense in individual and commercial life will be eliminated, and where competitive businesses will return to sound first principles.

The degree of prosperity will depend upon the sanity of all in accepting the conditions that are found existent, exhibiting a willingness to cut their cloth in wages and in profits to the yardstick of those conditions. It will depend upon the ability of all to establish an equal degree of deflation in their returns, to the returns that others receive.

To a greater extent than any country on the face of the globe we are self-contained, and it is possible for us to enjoy a substantial modicum of prosperity without access to foreign markets. Full prosperity in this country can never be attained until foreign markets are again available to our products, and nothing will bring about that return of balanced foreign trade except the gradual working out of economic laws, which means T-I-M-E.

Prosperity must be a comparative term, however. A short time ago I visited England, and France, and Switzerland, and Belgium, and Germany; and studied the financial and commercial conditions that prevailed there. That experience made me impatient with the average manufacturer and merchant of the United States who was bewailing his lack of prosperity. Compared with those countries ours is a veritable Garden of Eden. Comparatively we are at this moment en-

joying a degree of prosperity that seems rich indeed. We are today the favored of all nations. There is less of unemployment, there is less of want, there is less of social disorder with us than elsewhere in the world. Let us of this Chamber give this full recognition, and let us realize that if we will but dispel the delusions, the false theories, the political and social fallacies that retard progress, and get back to good old New England first principles in the conduct of affairs, we shall continue to enjoy our present enviable position and build for that world leadership in thought and in commerce which our ancestry and our great natural advantages justify.

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First Principles

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George A. Davis

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